This Stock Takes the Number 1 Slot on My Watch List

Description

Investors are all too familiar with the closing prices and performance of the securities held in their portfolios. While it is very important to be aware of how one's investments are performing, investors could be achieving much better returns if a conscious effort were made to build and monitor the "watch list" on at least a weekly basis.

The difference between most retail or amateur investors and the above-average investors is the ability to do an analysis when a stock is trading at a 52-week high. Although professional investors already know it is highly unlikely they will enter a position at such a high valuation, they are still willing to spend a few hours crunching the numbers to be ready when the "going gets good."

Over the past few years, many investors have been very patient with Quebec-based pharmacy **Jean Coutu Group PJC Inc.** (TSX:PJC.A) which has performed very well over this time period. The challenge investors have faced is trying to establish the next entry point in such a fantastic operation. Although shares peaked at the beginning of 2015 at a price near $29, the two-year gap in time has seen nothing more than a stabilization in earnings and a sideways share price.

Since 2012, the average earnings per share (EPS) have been close to $1 with a solid increase coming in 2015 ($1.16) and again in 2016 ($1.14). Investors have, unfortunately, not been so lucky in fiscal 2017, which ends in February 2017. Through the first three quarters of the year, EPS have totaled $0.83, which could be viewed as $1.10 annualized. The assumption used to arrive at EPS of $1.10 was by taking the EPS for the first three quarters ($0.83) and dividing the number by 0.75.

Assuming the company can deliver on expectations, investors may want to take a very good look at the company as a long-term investment. Currently trading near the $20 mark, investors are paying close to 18 times earnings and receiving a dividend yield of almost 2.5%. While this is not the 4% and 5% yields offered by other companies, investors may get a lot of benefit by asking themselves just what kind of business they are investing in.

Jean Coutu Group is in the pharmacy business with the large majority of locations in Quebec. With incredible brand recognition in the province, it may be favourable to pay a small premium for shares in this company. While the retail sector has been performing terribly over the past few years, the truth is, consumers will need their prescriptions filled during recessions just as much as any other time during the economic cycle. This is a defensive business.

With a very strong footprint and rock-solid client base, the dividend offered by this company may be one of the surest things available in the market today.

CATEGORY

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